

MEETING OF THE BOARD OF BANK ADVISORS

November 16, 2015

11:00 am

Department of Financial Institutions
324 South State Street, Suite 201
Salt Lake City Utah

Minutes

BOARD MEMBERS PRESENT:

Eric Schmutz, Matt Packard, Jason Price, and Roger Shumway. Craig White was excused

DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:

Tom Bay, Eva Rees, Andrea Staheli, Paul Allred, Angie Schilhabel, Todd Darrington, and Sonja Long. Commissioner Leary and Darryle Rude were excused.

OTHERS PRESENT:

Lew Goodwin, Green Dot Bank; Don Norton, Capital Community Bank; John Sorensen, Home Savings Bank; Ray Dardano, Marlin Business Bank; Howard Headlee, Utah Bankers Association.

1. Call Meeting to Order – Vice-Chairman Eric Schmutz

2. Minutes –

Roger Shumway made the motion to accept the minutes, Matt Packard seconded the motion. It was unanimous.

3. Legislative Preview – Paul Allred

As each session ends, Commissioner Leary will come to Paul and say that they need to think about what they want to do during the next legislative session. He has mentioned in the past that for departments there is a December 1 deadline to request a bill file be opened. We have to find a bill sponsor and go through what we want to do. This year we have identified an area that we want to clarify. The clarification is directed more towards our federal banking partners. We want to add a new definition in the definitions section for technology service providers. It is an important area with all that is going on. We would like to add a definition for them and then go into the jurisdiction section and put a new sub-paragraph that makes it clear that we have jurisdiction over those who provide technology services for financial institutions. Roger Shumway asked if we had the

definition yet. Paul said that it is clearer than the old definition in the Bank Services Act. He said that he didn't have the definition with him, but it will be as clear as we can be.

Jason asked Howard Headlee if he knew of anything that he could share. There is one thing; he thanked the department for their work in relation to the use of the word bank. It is a restricted term in Utah. He explained that there is a group of institutions that call themselves mortgage banks. They are called that in a lot of other states, nationally there is an association called the National Mortgage Bankers Association. They want to start an association here that is affiliated with that national group and they had to come to the department to get permission to use that name. The Commissioner denied them the use of that name. This person has family connections to the largest mortgage lender in Utah, has very strong political ties; Morgan Philpot who works for Academy Mortgage. He has strong feelings about this. They are looking at the asset side of their balance sheet and they are saying, we are just like a bank, but Paul Allred explained it the best way in a recent meeting. They would like to bring their companies under the Department of Financial Institutions for regulation. They currently are regulated by Department of Commerce, Division of Real Estate. It could become an issue during the upcoming legislative session. The second issue is the use of the term "mortgage bank". A discussion was held on the use of the word bank and what possible legislation could happen. Paul explained how the department handles requests like this, quoting the statute directly.

There was a discussion on how the department got pulled into the marijuana battle last year due to federal regulations. Paul commented that they would try to stay out of that battle this year.

4. Community Bank Conference Overview – Jason Price

Jason joined Commissioner Leary at the FRB Community Bankers Conference on September 30 – October 1. He was asked to share something from that conference. Tom gave out some of the books from that conference. Jason gave out a handout on one of the presentations that he attended. He gave out a summary of his notes and the handout that was given out in that presentation. He mentioned one of the things that he noticed when he got there was the contest that was created last year called Community Bank Case Study competition. Each state was invited to participate and partner with a local university. The university was supposed to put a team of 4-8 people together and go out and find a local community bank that had a story to tell. It was a nationwide academic competition. It was a chance for community banks to tell their story and they were all filmed and the videos are on You Tube. He went through the various points that they wanted covered. Each student on the winning team was given a \$1,000 scholarship, the winning team got a chance to attend the conference and present their study. They got to meet with Janet Yellen. The fantastic thing is the University of Utah won. It was on the Bank of American Fork, the fascinating thing was watching each community bank talk about why they are important, how they started, how they got through the crisis. He encouraged everyone to go out and watch the videos. After the award presentation Janet Yellen spoke for a few minutes and then each one of those students were offered multiple jobs. He believes that the University of Utah will participate again. Paul Allred gave

some background on that. When the U decided to do this they approached the department and they were given a background on community banks and the crisis. They were quickly engaged in the study and took off from there. One of the students made the comment that they came into the department not knowing what we do and they left with a desire to work in the banking industry. It has been beneficial to both the university and the industry. The advisors have been in and met with the department already with the new topic. Tom mentioned that one of the participants is now working for the FED and Jason said that another participant is working for Goldman Sachs.

Jason said that there were 12 different presentations. They are all available on the community banking website. He picked the main presentation, Small Business Lending: Challenges and Opportunities for Community Banks – Before, During, and After the Financial Crisis. He just picked a few things that he found interest in to share.

5. Compliance Update – Eva Rees

Eva said that Tom had asked her to talk a little bit about compliance. Compliance ratings, only using commercial banks, in Utah there are 3 1 rated banks in compliance, 22 2 rated banks, no 3 rated, 1 4 and no 5. That is a very good sign.

Compliance issues that are being cited on exams are the ongoing UDAP, whatever doesn't fit goes under UDAP. Eva doesn't think that the FED uses UDAP as much as the FDIC does. There is always the third party risk. That happens in both safety and soundness as well as compliance exams. Cybersecurity is a big one as well.

Andrea Staheli asked if she could interject here, she wanted to make sure that everyone was aware of the implications of your exams. As Cybersecurity becomes more of a risk, regulators are moving to address that. It is in the works now; the IT examination handbook is being revised. It is an initiative by states, the Federal Reserve, and the FDIC to make sure that our examination handbook is up to date. And that it gives a higher prominence to cybersecurity. In addition to the cybersecurity assessment tool that is available, the exam program is being updated. They expect those updates to be finished by year end 2015. The regulators will start piloting that new program during the 1st quarter of 2016. The FDIC Salt Lake territory will be participating in that pilot. She isn't sure what that expanded examination looks like yet. She will be participating in a table top exercise later today for regulators on this project. She also gave a plug for the Emergency Communications System. She and Eva both highly recommended it as it is free and a great communications system. It is optional for the institutions, but Commissioner Leary decided it was mandatory for employees of the department.

John Sorenson brought up a recent study on community banking and it just talked mostly about regulatory burden. It talked about some of the challenges that we are facing as bankers. And now they have to add a longer IT exam to that burden as well. There is not a connection between what regulatory burden is and how it affects community banks.

Eva also wanted everyone to know that the federal regulators are looking to re-do the definitions of the compliance exam ratings. There is a move to update those; Paul Allred is on the working group for that. They are like the CAMEL ratings, only for just compliance exams. Matt Packard asked what the motivation is for that. Paul said that there was a desire to have consistency between what you see on the safety and soundness exams and the compliance exams. FFIEC is also part of that movement. Jon Allen asked if Eva thought that the industrial banks generally had better compliance ratings because they don't have all of the consumer products that commercial banks do. Eva said no. She didn't pull the rating summary for the industrial banks but she thinks that they would be very similar, if any difference perhaps not quite as high as community/commercial banks. Jon also sensed that there is a perception among some examiners that if they weren't telling us what to do with IT security, we wouldn't do anything. But when you take a loss, you are very aware of the importance of it. He would remind everyone that this is stuff that the banks want to do and have done for a long time, we welcome new advice, but he objects to that mentally that they wouldn't do it if the examiners didn't tell them. Eva asked if that was the general feeling that the examiners all have that perception. It was pretty much unanimous around the table. Eva said that it sounded like they needed to address that with the IT examiner group. There was a discussion on the cybersecurity and examination issues.

6. Performance Trends – Tom Bay

Tom gave out the report. They have tried a new format this time. All of the commercial banks have been added, but the community banks are important as a sub-set. Right now we have 26 commercial banks and 19 of those are community banks. He briefly went through the report.

7. Other business -

Tom had one more item, an article from the American Banker – “de novo drought may finally be about to end.” It was interesting article. There was a vote that was taken recently that Tom hoped everyone participated in on what is causing the ongoing dearth of de novo bank charters. Some of it coincides with what was discussed today. A full 50% of respondents said that the compliance costs of running a small bank makes starting a new one tough. 21% said that it is easier to buy an existing bank. 16% said capital requirements are too high and 12% said the economy is too weak. He isn't sure that everyone would agree with that.

There were two new examiners in attendance and Tom asked them to introduce themselves. Todd Darrington started in March and Angie Schilhabel started in September, they gave a little bit of their background.

8. Date of next meeting – February 22, 2016 – 11:00 am